

## **APPENDIX A**

### **PROJECT DEFERRAL DISCUSSION PAPER**

## ***Project Deferrals Necessary to Balance MaineDOT's 2006-2007 Capital Work Plan***

The Maine Department of Transportation (MaineDOT) is revising its \$648 million *interim* Biennial Capital Work Plan for Fiscal Years 2006-2007 (Work Plan), as a result of new information regarding actual financial resources and rapidly increasing construction costs. This revision, which obviously must be done to assure prudent fiscal management, is required now to receive federal approvals necessary to assure continued federal funding. **Due to a number of factors outlined below, MaineDOT must defer transportation projects now estimated to cost about \$130 million from its Work Plan, representing over 20% of projects.** Priority consideration will be given to deferred projects when MaineDOT develops its next Biennial Capital Work Plan for Fiscal Years 2008-2009, or sooner, if alternative resources are identified.

### **Background**

In March 2005, MaineDOT published an *interim* Biennial Capital Work Plan for Fiscal Years 2006-2007. This Work Plan was presented on an "interim" basis primarily due to the delay in enacting the federal surface transportation act (which expired 10/1/04), but also due to state funding uncertainty related to pending legislative actions on the state highway fund budget, motor fuel-tax indexing, and bonding levels. Since that time, the state HF budget was passed, indexing was preserved, a state transportation bond was passed, and most importantly, in August Congress approved and the President signed the federal surface transportation bill, "SAFETEA-LU". Furthermore, construction costs have risen dramatically due to worldwide demand and the effects of recent hurricanes. Consequently, MaineDOT now has far more reliable information regarding available financial resources and anticipated costs.

### **Primary Causes for Work Plan Project Deferrals:**

- **Federal Cash-Flow Challenges** - SAFETEA-LU, the reauthorization of the federal surface transportation programs for years 2005 through 2009, presents both short-term challenges and long-term benefits to transportation funding. Though cumulative funding levels over the life of SAFETEA-LU (without adjusting for inflation) calls for an overall increase in federal transportation funding for Maine, the bill has created some immediate cash flow challenges. These challenges are due to its retroactive application, reconciliation of the numerous extensions of the previous legislation, the impacts of the High Priority Projects (HPP) program, other new or modified legislative provisions affecting core funding formulas, and overall funding levels. Consequently, some project priorities contained in the Work Plan had to be changed to accommodate some new priorities defined in federal law. In addition, the extent of the HPP and other programs as a percentage of core funding, and the fact that some of the projects designated for special funding under SAFETEA-LU are not yet ready for construction, means that funding is not useable for the current Work Plan projects.
- **Unprecedented Increases in Construction Costs** – Across the nation and in Maine, the construction sector is facing rapidly escalating costs for construction materials such as petroleum, concrete, and steel. Fuel oil and asphalt costs,

which are necessary for all transportation construction projects and for paving in particular, have been driven exceptionally high due, in part, to recent hurricanes. Steel and other construction materials have become more expensive due to increased worldwide demand at home and abroad.

- **Aggressive Programming and Higher Production Rates** - In order to put every capital transportation investment to work as soon as possible, MaineDOT historically has programmed aggressively, work plans have included slightly more projects than can be supported by projected funding based upon historical experience that additional funding may emerge and that some projects will not move to construction due to local concerns, permitting, and other production constraints. Happily, changes in production processes and design assumptions instituted over recent years have resulted in higher percentage of the planned projects being delivered. Although a positive development, increased production rates have meant that prior programming assumptions need to be adjusted to remain fiscally constrained. Looking forward, MaineDOT's Work Plan management process will allow for a more dynamic and gradual recalibration of the capital program over time.
- **Potentially Lower Fuel-Tax Revenues** - High motor-fuel prices may have the effect of reducing the amount that people drive or the vehicles they chose. This could affect funding for transportation projects, since both the state and federal government depend primarily on per-gallon motor-fuel taxes for funding of capital improvements. While fuel prices are now declining, they remain relatively high, and any revenue adjustment at the state level will not be known until later this year.

In sum, federal cash flow challenges, higher construction costs, aggressive programming coupled with higher production rates, and potentially reduced state revenues require that MaineDOT defer transportation projects now estimated to cost about \$130 million from its Work Plan, representing about 20% of projects, unless alternative resources are identified.

#### **Project Selection Criteria:**

When MaineDOT develops its Capital Work Plan, the Department conducts a comprehensive project selection process, since transportation needs and requests for projects greatly exceed available resources. MaineDOT went through a similar process to identify those projects in the Work Plan that will be deferred. This process included consideration of the following:

- **Contractual Agreements** – Despite federal uncertainty because of piecemeal funding through “Continuing Resolutions” in Congress, MaineDOT began implementing its FY 2006-2007 Work Plan in July. Due to contractual obligations and the added costs of deferring projects already under construction, MaineDOT did not defer any projects that were already under contract for construction.
- **Federal Inflexibility** – As indicated above, SAFETEA-LU limits Maine's flexibility in transportation programming. Project priorities identified in SAFETEA-LU must not only be included the Work Plan, but they also limit the pool of additional transportation projects in the Work Plan that could be deferred.

- **Transportation Safety** – Safety remains MaineDOT’s top priority. Although all transportation improvement projects include a safety element, MaineDOT considered the safety component of each project as projects were evaluated.
- **Project Readiness** – Since all projects deferred from the FY 2006-2007 Work Plan will be top priorities for the FY 2008-2009 Work Plan, the readiness of projects for construction was a strong factor in the consideration. For example, projects that would need to be deferred to FY 2008, based on non-fiscal factors such as environmental permitting, complications involving state and local agreements, or additional unforeseen delays, have been deferred to allow for the most practical use of financial resources currently available.
- **Resource Allocation Policy** – MaineDOT’s capital programming is in some ways comparable to home ownership. Just as it would not be fiscally prudent to build an addition to a home when its roof is failing, the Department provides a minimum amount of resources to maintain the existing transportation system, prior to making major improvements. Therefore, although the deferred projects will include some bridge and paving projects, the majority of the projects that will be deferred are highway reconstruction projects.
- **Regional Distribution** – Every transportation project is meaningful and important to its surrounding communities and region. As projects were selected to be deferred, consideration was given to avoid canceling all projects in a specific region, and project deferrals are distributed across the entire state.

#### **Next Steps:**

MaineDOT will produce a revised Biennial Capital Work Plan for Fiscal Years 2006-2007. Further, MaineDOT is evaluating ways to stretch existing resources, as well as alternative funding sources that might allow projects to be added back into the Work Plan, thus minimizing the impacts of the deferrals. MaineDOT would like to hear from affected stakeholders regarding the impact of these deferrals. A web link has been established at [www.mainedot.gov](http://www.mainedot.gov), giving all citizens the opportunity to provide the Department with feedback regarding transportation projects.

# MaineDOT Capital Work Plan

## Primary Causes of MaineDOT Capital Work Plan Deferrals

\$130 Million

